

# NSW and VIC value capture reforms: A comparison

by Jesse Hermans | Aug 26, 2022 | Commentary



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Value capture type reforms are underway in Victoria and New South Wales. Both governments aim to increase contributions from people who benefit from public decisions that increase land values, known as value capture, to provide fairer, more efficient and improved revenue sources to meet public needs and uplift communities.

As announced in the 2020-21 Victorian budget, new legislation has been introduced detailing the proposed concept of a Victorian Windfall Gains Tax (WGT). NSW has also proposed a new framework for Regional Infrastructure Contributions (RICs) to meet the cost of the regional infrastructure provided by the state government.

The reform in Victoria is implementing the WGT. It will be applied to rezoned land from 1 July 2023 and will be levied at a rate based on an increase in the value of the land after a rezoning. The tax is intended as a way for developers to “contribute their fair share” to infrastructure such as public transport, roads, hospitals and schools, rather than targeting specific property value enhancements.

The WGT only occurs after rezoning and excludes areas subject to the *Growth Areas Infrastructure Contribution* and a wide range of existing residential sites. For the average person, these publicly created windfall gains provide more funding to support the public services needed in these areas, and at no cost to existing government expenditure or other taxpayers.

And because rezoning is in the hands of the planning authority, the taxes that must be paid as a result of rezoning can reduce private landowner interference or incentives to be involved in planning and, to some extent, reduce corruption and land speculation.

NSW's reforms are expected to be implemented by October 2022. They are centred around RICs, which, unlike Victoria's WGT, are paid at a fixed rate depending on the project and location, with the system applying statewide. Commercial, industrial, retail and residential lands have different fixed rates, and uncertainty is minimised via advanced notice periods.

This approach increases equity and reduces the possibility of developers paying unexpected fees and taxes while increasing the contribution of landowners and sharing the costs. These levies are used to fund infrastructure, particularly major transport projects. This is in line with the view that property owners can be seen as the primary beneficiaries of major infrastructure projects.

The current more equitable share of land value enhancements and higher infrastructure returns are reflected in the specific projects. For instance, the Australian and NSW governments approved to co-finance of the Western Sydney Airport Metro line, receiving a modest but ground-breaking contribution from increased land values around the stations. Another example is the NSW Government's decision to use value capture to help fund the Pyrmont Metro station.

Comparing the differences between the two states, Victoria gathers more of the value generated by the appreciation brought about by the rezoning. In contrast, NSW is more concerned with just the actual amount paid than the appreciation itself. For developers, the NSW policy is likely to be more transparent and straightforward without waiting for rezoning to know the amount they will need to pay. However, for Victoria's WGT, land that is not affected by rezoning, or which does not receive a substantial windfall (above \$100K) is not subjected to any tax.

In addition to the differences in the applied areas and tax rates, the instruments adopted by the two states are fundamentally different. Victoria's policy reflects the government's efforts to innovate or improve revenue sources through reform. Because the owners of the land benefit from the government's decisions, which means an increase in the value of the land, it is the owners who fund the government's expenditure to create a more equitable tax system.

New South Wales has instead undertaken holistic contributions system reform, by applying specific criteria to different locations and land uses to achieve simpler, more stable revenues while also improving efficiency. Victoria's introduction of the WGT is a great value capture policy, however it could also learn from NSW holistic approach to contribution reform. Especially with creating a system that delivers more certainty and simplicity for developers, while improving efficiency and equity through greater value capture.

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