To: Australian Federal Government

Invitation to provide a submission on Re: Think, better tax, better Australia

Submission:

The current Land Tax legislation framework (Land Tax) applicable within New South Wales (NSW) not only adversely impacts a portion of the general public, but is inhibiting growth in a number of important and related areas within the economic environment (Residential, Industrial, Commercial and Rural development). It also has a negative effect within the wider community and impacts on investments, housing and commercial tenants (rental), employment and high cost to the end of line consumer user.

The following submission[1] attempts to outline a fairer application of 'Land Tax' and incorporates this revenue within an already applied municipality/council rates which is charged on every property and property owner (public and private). This submission high-lights the need to change terminology and removal of the reference of 'Land Tax' and abolishes this form of tax in its current make up and rationale. For the purposes of this submission, the terminology of **'Property Tax'** replaces **'Land Tax'** and is to be incorporated within the standard *'Council/Municipality Rates and Charges Notices'* that are issued to every property owner within the state.

A better and efficient Tax System in relation to 'Property Tax' will improve not only members of NSW, but the entire Australian community from an economic growth perspective and prepare us to ensure growth is sustained into the future in this area.

The following information provides responses to selected 'summary of discussion question numbers: 2, 5 and 52' of the *Re: Think, better tax, better Australia* document for the abolishing of Land Tax.

[1] **Note:** It is acknowledged that other submissions in the past have also indicated a similar approach and rationale in abolition Land Tax. The suggestions and recommendations put forward in this document in no way seek to achieve any exclusive acknowledgments over any other individuals, groups or organisations who have made similar suggestions and/or recommendations.

Question: 2

How important is it to reform taxes to boost economic growth? What trade-offs need to be considered?

The word **reform** is to improve something in order to either remove or correct the issue/problem and ensure it improves the issue identified. New South Wales is currently experiencing a significant landscape change in its development of infrastructure in areas of major road networks, new train lines, residential and commercial land release and development, and the commencement of the State's second airport located in Badgerys Creek.

Reason for Reform:

A recent article comments on the financial management strategies of select Sydney councils with respect to the proceeds of Section 94 Developers contributions and Rates;

> ***SYDNEY homebuyers slugged with a $30,000 tax bill for their new home are being short-changed by local councils.***
>
> *An audit by the Property Council of Australia has found Sydney councils are sitting on more than $1 billion worth of Section 94 taxes that could be spent improving local parks, roads and infrastructure.*
>
> *But because many councils refuse to go into debt or are too small to deliver projects, the Property Council said much of the cash sits idle. "Councils collect these* ***taxes*** *on the promise they will be spent on better local infrastructure but too many are failing to do so," Property Council executive director Glenn Byres said.*
>
> *"We understand bigger councils planning large infrastructure projects will inevitably need some time to deliver them. "But there are too many councils in Sydney and the result is they are too small to properly plan, fund and build essential infrastructure.*
>
> *"The consequence is these* ***infrastructure taxes*** *— that are frontloaded into the cost of new homes and businesses — are not being spent efficiently."*
> *Section 94 and 94A levies allow councils to charge developers for contributions towards public amenities and services required as a consequence of development.*
>
> *This may be for new facilities or the expansion of existing facilities where an area is growing. Developers pass this cost onto new homebuyers, adding an estimated $20,000-$30,000 to the cost of a newly built home.*
>
> *Sydney's 39 local councils added $116 million to their coffers in the past year through the levy. The also made more than $34m in interest on the unspent revenue, Mr Byres said. Asked to comment on the audit, Local Government Minister Paul Toole said: "Councils should act as best they can to deliver infrastructure in line with community expectations."*

Councils have until June 30 to explain to the State Government how they are going to be sustainable, including options for amalgamation between councils. Two recent state government reports found there is a statewide infrastructure backlog of $1000 per person, and that nine Sydney councils have a negative financial outlook.
Local Government and Shires Associations of NSW spokeswoman Toni Allan said councils should be spending development contributions at the appropriate stage of the process, and not before.

"You can't just have a one-size-fits-all rule about when the funds need to be spent unless you want to end up with rushed, dodgy public infrastructure that doesn't meet community needs," she said.

"Anyone who's ever done a home renovation knows that it doesn't all get paid upfront — planning, construction and payment happens in stages.
"It's the same with community infrastructure, only on a much bigger scale that makes planning and scheduling even more important, because councils have to try to minimise inconvenience to the people who already live and work there."[2]

We can determine that from the information outlined above, Local Government and Local Municipality/Councils could potentially be utilising the proceeds gained through Land Taxes in a more efficient manner which would result in greater benefits to the NSW community. It is recommended that tax revenues generated through land development contributions, levies and land taxes should be incorporated within a one tax revenue that is raised through a 'Property Tax' and which is collected as part of Municipality/Council Rates. Should this change in approach be considered and adopted, and then funding re-allocation for future planning, infrastructure and development can be better placed.

A further recent article refers to:

'*When government budgets are put together the Treasury estimates how much* ***tax it*** *will collect. Since the early 2000s, a lot of that has come from mining, in particular, the export of iron ore. As Australia's industry grew, that growth coincided with record prices. So as the price drops, the amount of* ***tax*** *being collected also drops.*

Apart from the obvious fact that, from Australia's perspective, higher prices are better than lower ones, the government has to base its ***tax*** *estimates on what the key commodity prices might be. If prices fall below estimates, that revenue must be made up from increasing other* ***taxes,*** *spending cuts, or deficit spending (borrowing)'*[3].

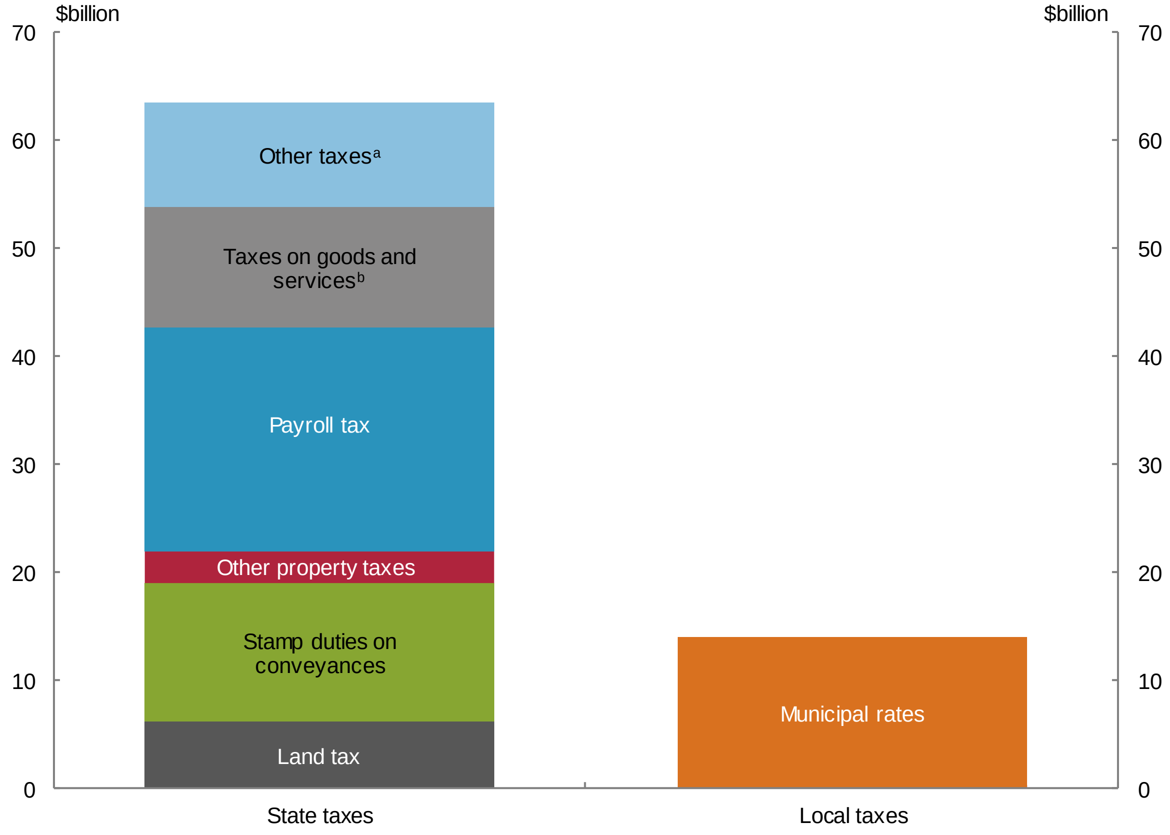
As per the above article suggests, due to the decrease in revenues associated with key commodities anticipated for the foreseeable future, the government needs to explore other opportunities to protect its income stream.

[2] Daily Telegraph article: SYDNEY homebuyers slugged with a $30,000 tax bill for their new home are being short-changed by local councils. – Ben Pike 26 April 2015

[3] SMH article: Seven charts that explain why Australia's in a revenue hole – Luke Mallpass 22 April 2015

With the release of land for residential and commercial development comes additional revenue from development contributions, stamp duty, financial institutional loans and land tax. Then further add to these current revenue streams such as, local council rates, financial institution fees and charges and capital gains tax and you then have a breakdown of figures on what the Federal Government's *'Re: think, better tax, better Australia'* document refers to as 'sources of state, territory and local tax revenues (2012-13)[4];

Chart 0.7 Sources of state, territory and local government tax revenue, 2012-13



(a) Primarily motor vehicle taxes.
(b) Primarily gambling and insurance taxes. This does not include GST revenue.
Note: Figures are for 2012-13, as this is the most recent year local government data is available.
Source: ABS 2014, *Taxation Revenue, Australia, 2012-13*, cat. no. 5506.0, ABS, Canberra.

Future benefits arising from reform to Land Tax:

To boost economic growth, as the increase of infrastructure takes place in the development of roads, rail links, residential and commercial development, then more jobs are created and people are employed. Once the infrastructure and building works are completed, then the amount of capital increases in business growth across the spectrum. It is well acknowledged that if resources are invested into building an economy now, then future generations will enjoy a higher level of economic growth, business will produce more goods and consumers can purchase more goods.

[4] Re: Think, better tax, better Australia document for the abolishing of Land Tax.

The abolishing of ‘Land Tax’ in its current form and the replacement of this tax with a ‘Property Tax’ component incorporated within current Municipal/Council Rates will allow for an improved and increase in the following areas;

- A fair and equitable tax on all property owners
- Allowing for investment to increase without fear of overpricing housing and commercial tenants and end of line consumers
- Allows for a more affordable rent by housing tenants and encourage the purchase of investment properties
- Significant increase in revenue derived from Property Tax

Property tax can be fairly distributed among every property owner if an amount of Property Tax is levied equal to 30% (as an example) of the Municipality/Council rates currently being charged and obtained on each and individual property.

Example of a Property Tax component and its application within a 'Council/Municipality Rates and Charges Notices';

> **‘A property owner paying $1200 in council/ municipality rates will pay $360 in Property Tax’**

The property tax figure listed in the above examples is applied across each property owner in NSW. Information was sought from the NSW - Department of Land, Property & Information in relation to obtaining figures of property owners in NSW and they have provided the following;

‘The information held by LPI is title based rather than grouped property owner. For example an individual may own 3 properties but LPI doesn’t group that information under the individual but rather as three separate titles. In addition, there will be multiple individuals with the same name and we have no way of distinguishing what group of properties one John Smith owns compared to a different John Smith’[5].

As they were unable to provide an accurate figure, I therefore worked on basing the example at a conservative figure of 3,000,000 property owners across NSW. This figure is anticipated to increase significantly over the next 20 years, given the nature of planned infrastructure and development as per *‘Infrastructure NSW – State Infrastructure Strategy 2012 – 2032’* document.

[5] NSW Land& Property Information Unit - Libby Abraham

By only calculating on the minimum rate as indicated in the above example, and taking into account an average of $360 in Property Tax being raised from 3,000,000 property owners, this would deliver to the NSW State Government an annual amount of $10.8 billion[6] dollars in Property Tax revenue.

In 2014 the NSW Government raised $2.4 billion in Land Tax from a specified small group of property owners. It is clear that Property Tax applied in this new format will deliver a substantial increase to the Government's revenue which can be utilised to deliver significant financial fiscal benefit to the whole state of NSW.

State and Local Governments will be required to develop strategies in line with policy and procedures in transitioning the collection of Property Tax within the current *'Council/Municipality Rates and Charges Notices'* issued to each individual, group, corporation and company property owner.

Considerations of exemptions are to be explored, however remembering that the implementation of a Property Tax should not discriminate against any individual within the community. It is accepted that certain exemptions will and should apply, however the reform of abolishing Land Tax and replacing it with a Property Tax should be based on its application across the community in a fair and equitable manner. In its current form, Land Tax allows for exemptions to be administered, by allowing Property Tax to be collected within this revised formula, a number of current exemptions will not be required, thus reducing any grey area of perceived unfairness in its application and simplifying its application.

Development of current exemptions will require review and monitoring of its effectiveness and what impact this funding stream delivers to the States budget in terms of additional revenue for infrastructure, capital growth and development.

The trade-off in removing 'Land Tax' in its current form and incorporating its replacement within Municipality/Council Rates as 'Property Tax' is;

- Removing the *'us v them'* mentality from the general community and tax payers in general
- Provides additional revenue to a State, without impacting on its fiscal management, and budget estimates.

One needs to carefully consider that spending by a State Government is justified in the first instance along with stringent measures in governance and transparency in place. Policy development across any public or private sector is dependent on what the financial implications are imposed with the introduction of any policy. A State Government can easily spend too much of a revenue raised by Taxes. And if the Taxes are too low and there is a deficit in the budget, this only develops panic within Government spending and leads to mis-

[6] This figure would need to be further revised and consideration of exemptions and average figures to be calculated in order to provide a more accurate figure of revenue generated from an introduction of a 'Property Tax'

management of public funding.

For the purpose of progressing with the States future infrastructure development and creating future growth within jobs/employment, a State Government is required to plan and build for the future.

A reference is made to the following recent article;

‘The New South Wales Government is selling public assets on a massive scale, offloading $1 billion worth of property in the past two years alone. Office blocks, hospitals, schools and even an island are all up for grabs.

Some economists argue the state should hold onto its valuable real estate, but the Government insists the money would be better spent on new infrastructure and housing. In 2011-2012, the Government sold state-owned assets worth $5 million. In late 2012, it established a new agency, Government Property NSW, to identify and manage the state's lucrative real estate portfolio. Agency CEO Brett Newman told the ABC the portfolio comprised 200,000 properties worth almost $130 billion.

"What we do is identify assets that don't need to be owned or are underutilised and we sell them so that the money can be reinvested in capital and improved services right across government," Mr Newman said.

Since April 2013, Government Property NSW has sold properties worth $1 billion.They have included seven office blocks worth $400 million, the Ausgrid building in Sydney's CBD for $151 million, and justice precinct buildings in Parramatta worth $170 million.

It has also sold nine terrace houses in Millers Point for $22 million, and plans to sell another 293 of the historic properties. The Government said the proceeds would fund new accommodation for the 58,000 people on public housing waiting lists.

The historic Bidura House and surrounding grounds at Glebe Point went under the hammer in December, selling for $33 million. Chinese developers hope to build up to 100 apartments on the site. Also for sale is Peat Island and adjacent foreshore land at Mooney Mooney, on the Hawkesbury River, to make way for a housing estate, marina and retail hub.

Government Property NSW also wants to sell 99-year leases for two heritage-listed sandstone buildings near Circular Quay, earmarked for redevelopment as international hotels’.[7]

These sales of public assets are a trade off in order to boost economic growth. The revenue that is raised from an evenly distributed ‘Property Tax’ will also allow for proceeds to be allocated into infrastructure and development across the whole of the State.

[7] NSW Government sells $1billion worth of public assests in past two years – ABC news – 10 February 2015

Question: 5

What parts of the tax system are most important for maintaining fairness in the tax system? Are there areas where fairness in the tax system could be improved?

DEFINITION of 'Tax Fairness'

A tax platform based on an ideal that aims to create a system of taxation that is fair, clear and equivalent for all taxpayers. Overall, tax fairness looks to limit the amount of tax legislation and rules that benefit one segment of the tax-paying population over another.

Many groups, politicians and individuals that push for tax fairness are looking to remove loopholes, incentives and cheating within the tax system. Tax fairness supporters believe these practices place an undue tax burden on certain segments of the tax-paying population, while making it easy for other segments to significantly lower their tax burdens.[8]

The word ‘fairness’ is used extensively in all literature when discussing Tax and its application and implications. To put it candidly, ‘Land Tax’ penalises a select population within the community and does not support the best approach in enhancing economic growth. This is in turn transfers potential revenue out of the State.

By abolishing ‘Land Tax’ in its current form and still maintaining exemptions for pensioners, retirees and alike, then ‘Property Tax’ can be calculated and levied in every property (residential, commercial, rural and special categories), regardless of its legal entity or owner.

If you are a low income owner that owns a small apartment, unit or house or a high income owner that owns multiply properties, then ‘Property Tax’ is applied to all of these sites, regardless of the legal status of ownership. As a multiple property owner that is already contributing to multiple municipal/council rates, then you are also contributing to a percentage share towards ‘Property Tax’ on each of the individual properties. This does not create any further hardship or the property owner, it does not force the property owner to raise higher rents, it also allows families to retain their investment properties without being penalised and forced to sell a property that may have been within the family over many decades.

With the likelihood of the increase to the GST to 12.5% or 15%, the abolishing of Land Tax in its current form will allow for the transition to ‘Property Tax’ to be calculated by the States Treasury Department.

By continuing with the current format of Land Tax applications, this will result in the following;

‘This results in forgone revenue and distorts land-use. For example, levying land tax at progressive rates on total landholdings leads to higher taxes on large landholdings, compared to smaller landholdings. The OECD argues this introduces a bias against large

[8] Investopedia website

investments in residential property and discourages institutional investors from investing in private rental housing'.[9]

Question: 52

What are the relative priorities for state and local tax reform and why? In considering reform opportunities for particular state taxes, what are the broader considerations that need to be taken into account to balance equity, efficiency and transitional costs?

A recent article outlines opinions in relation to what are the relative prioritise for state and local tax reform;

Catherine Livingstone, President of the Business Council of Australia, commented: "The Federal Government's tax discussion paper highlights serious structural flaws in Australia's tax system that are undermining national competitiveness. The paper underscores that the challenges facing Australia's tax system are profound, including pressures on the tax base from digitization of the global economy. It shows that Australia's current tax system will impede the nation's capacity to drive growth, create the jobs, or foster the innovation and productivity that Australia needs to underpin living standards in the decades to come." Livingstone recommended that the Government use the White Paper process "to map out a plan for significantly reducing the company tax rate to a more competitive rate for all companies." She warned that "comments by the Government that it will only pursue change to the GST if all states and parties agree puts a very high hurdle on improving Australia's major indirect tax.

"Kate Carnell, CEO of the Australian Chamber of Commerce and Industry, said: "We need to keep all ideas on the table at this early stage of the debate, including changes to the GST. If we rule out changes to the GST, we will condemn future generations of Australians to pay higher and higher income taxes, sapping incentives to work." She added that high company tax rates "encourage companies to relocate their operations offshore to places that have more competitive rates of company tax," leaving Australia "at risk of falling behind as its international competitors change their tax systems to make them more competitive."[10]

The current Land Tax laws allow for owner-occupied housing to be property tax free and impacts only on those with investment properties or owners of additional properties due to family situations such as long standing ownership of property and inheritance, etc.

If one travels on any road, street or lane way in NSW, they pass a property, either in the form of residential (houses, units, apartments), commercial buildings, industrial estates, rural properties or properties deemed to fall under special category, schools, hospitals public assets, parklands, place of worship or historic building, etc.

[9] Land Tax - Re: Think, better tax, better Australia document for the abolishing of Land Tax.

[10] Australia engages public on tax regime overhaul by Mary Swires – Tax News.com 31 March 2015

The majority of all of these identified properties contribute to an annual municipal/council rates. It is not only sensible that a 'Property Tax' component is derived from these annual council/municipality rate notices and charges, but crucial in ensuring that revenue is collected from an existing commodity. This proposed system across the whole of the state is seen to be a fair and equitable tax on property. This form of 'Property Tax' treats owner-occupied housing the same as all other property owners, thus allowing for an increased revenue for the states Treasury. It allowes affordable rents for both housing tenants, commercial tenants and while at the same time encouraging investment by people within the state and to ensure that those investment dollars remain within the state.

These reforms allows for the States Treasury to still calculate incoming revenue -for the purposes of developing the future of the state in areas of infrastructure and growth development.

A reference is drawn to the following extract;

Land taxes

Many submissions consider land tax an efficient and underutilised tax base. It is generally accepted that a broad-based land tax is relatively efficient, as landowners cannot reduce the supply of land to avoid the tax. As supply is unable to respond to the tax, its primary impact is to reduce the current after-tax price of land so that the future after-tax earnings on the asset reflect the return on equivalent assets.

However, where there are exemptions in the state land tax base, as currently exist for owner-occupied housing and land used for primary production, there is scope to move some land from a taxable to a non-taxable use. This opens the possibility that the supply of taxable land can decrease, resulting in at least part of the tax being passed to users of land. Thus the exemptions from land tax can create an efficiency cost by distorting the use of the land.

Exemptions for owner-occupied housing mean that home owners do not face a land tax liability, which could potentially represent a significant proportion of their income depending on the value of the land on which their home is located. Removing exemptions may mean it is necessary to ensure there are sufficient mechanisms to ameliorate potential cash flow problems for such people, such as reverse mortgages or personal loans, or tax deferment arrangements.

Removing exemptions would also mean that the same amount of revenue could be raised with lower rates of land tax. However, it could be argued that the land tax exemption for owner-occupied housing creates room for local governments to apply rates.

While a few submissions consider the exemptions necessary for equity reasons (with reference to income not asset value), exemptions may be seen as inequitable (due to wealthy and/or high income home owners being exempt from the tax) and this may reduce the community's acceptance of the tax. In this context, Carling (2008) notes the relative acceptance of local government rates, which are primarily land taxes applied on a uniform basis[11]*.*

[11] Australia's future tax system consultation paper – December 2008

If reform on Land Tax was introduced shortly after the 2008 Tax review took place, then today we would today have a situation where state governments were evenly and fairly applying a 'Property Tax' to all property owners and not just a minority group within the community. The revenue raised from the application of the Property Tax as described in this submission would have a significant impact of the state's budget in a positive manner.

The Property Tax proposal does not place any additional burden on the property owner, in fact it allows for an increased and additional stream of revenue to be collected by state authorities across a level playing field, without any form of discrimination or hardship imposed on individuals.

For NSW to continue to deliver its Infrastructure Strategy into the future, it will heavily rely upon **Taxation revenue**, the following is an excerpt from a NSW Government document;

Funding and Delivery

All new infrastructure is ultimately funded via ***taxation*** *or user charges. Private financing in its own right does not create more money for infrastructure development.*
Infrastructure NSW proposes its priorities are delivered within a sustainable budgetary framework by using the following six funding strategies:

- *Tolls on new and upgraded motorway links*
- *Restart NSW funding using net proceeds of assets sales and other windfall gains*
- *Reduction of public transport subsidies, consistent with regulatory determinations*
- *Limited reprioritisation of current capital plans*
- *Commonwealth contributions for projects that align with Infrastructure Australia's key themes*
- *Value capture from beneficiaries of new infrastructure, where feasible. WestConnex is proposed to be predominantly user funded, with limited Government financial support in the early years.*

Further reasons to be concerned:

A recent article has highlighted what Local Councils are planning for the increase of rates;

"RATEPAYERS could be slugged up to 50 per cent more over four years after huge rate rises were approved yesterday.

The double-digit rate hikes have strengthened calls for council amalgamations, with Local Government Minister Paul Toole saying the increases were "very concerning". The Independent Pricing and Regulatory Tribunal has approved 22 local council requests to increase rates above the 2.4 per cent rate peg, with Sydney councils among those able to charge up to an extra 50 per cent over four years.

Wollondilly council was given the biggest increase — able to charge ratepayers an extra 50.72 per cent over four years, an average increase of more than $100 a year. By 2018-19, Wollondilly town centre residents will have paid an extra $527, and rural residents an extra $889, to pay for the council's infrastructure maintenance backlog.

Mr Toole said it was "unreasonable" for councils to constantly increase rates above the rate peg. "It is very concerning to see so many councils in both Sydney and regional NSW struggling financially," he said. "There are 41 councils in Greater Sydney, all with their own local rules and regulations ... Ratepayers have a right to question whether this city can continue to afford 41 separate administrations and whether the current system … provides value for money."

Mr Toole said in the past two years a third of the state's councils had asked for rate hikes above the peg. "It is unreasonable to expect communities to continually dig deeper into their hip pockets."

Blue Mountains Council will be able to increase rates by more than 40 per cent over four years, an average of $41 extra in the first year and $456 over four years.

Ashfield Council residents will pay 38 per cent more over the same period — an extra $77 in the first year, adding up to $395 over four years. Ryde residents will pay more than 31 per cent, or an average of $60.94 in the first year and $266.78 over four years.

IPART chairman Peter Boxall said all councils with increases approved above the peg were able to prove the extra money was needed, and the community was consulted. "We expect that councils have listened to their communities and considered their capacity and willingness to pay prior to applying to IPART," Dr Boxall said.

"Councils are closer to their communities, and while IPART may approve a special variation, it is up to the councils to decide whether to implement it in full."[12]

(The following is an Extract from NSW State Infrastructure Strategy 2012 – 2032 publication)

Infrastructure NSW's recommendations have been made for each class of infrastructure and are phased between 2012-17, 2017-22 and 2022-32. The principal recommendations are summarised on the next page. The full list of recommendations is set out in Section 15 of the Strategy. The recommendations have been developed to be realistically affordable and capable of being delivered.

The scoping estimate for the priority projects and programs (excluding existing Government commitments) is $30 billion. After deducting assumed user funding of $10 billion, the incremental cost to the State is $20 billion over 20 years. This averages about $1 billion per annum, compared with total NSW Government capital expenditure of approximately $15 billion per annum.These investments are necessary to allow the economy to grow at the level required to maintain and improve living standards for a larger population. Delivery of the right infrastructure will allow NSW to realise its potential as one of the best places in the world to live and work.[13]

This information is clearly defined within the NSW Governments reform, a more balanced and fairer 'Property Tax' is required to be developed in order to ensure that not only NSW moves into the future, but all other States are operating on the same basic principal and tax system. These measures and strategies will return substantial economic growth the States.

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[12] Daily Telegraph Article by Alicia Wood 20 May 2015

[13] Infrastructure NSW – State Infrastructure Strategy 2012 - 2032

Recommendations:

It is recommended that the Federal Government approve;

1. Abolishing Land Tax in its current form and application,
2. An undertaking to reform current Land Tax legislation and policy and implement a Property Tax in line with this submission,
3. Consider and adopt the changes provided within this submission to Land Tax and introduce a Property Tax component within Municipal/Council Rates,
4. For various State and Territory Governments to undertake an evaluation of the overall structure in relation to imposing a property tax without the risk of compromising key services to the community and imposing or increasing any additional financial burden or hardship to families.

Note: there will be unique differences between NSW and WA, given its variance in population numbers and other contributing factors, but in general, an imposed 'Property Tax' applied with the same principle's and operating policy on all properties will not discriminate, but will increase revenue and is a much fairer process.

Submitted by Domenic Pezzano – New South Wales – 21 May 2015