

Australian Retailers Association and Shopping Centre Council of Australia

Tax reform from the retail perspective

Joint Submission in response to:

Re:think – Tax discussion paper, March 2015

1 June 2015

EXECUTIVE SUMMARY



- The retail and shopping centre sectors are partners and have an important and unique contribution to make to the national tax discussion.
- We are hubs of economic and social activity and tax generation.
- The retail and shopping centre sectors contribution to the Australian economy is substantial and crosses various 'local' markets in metropolitan, regional and rural areas in every state and territory.

EXECUTIVE SUMMARY



- Tax reform should be progressed cautiously.
- We want to avoid over simplified reform options which are, too often, based on so-called ‘tax efficiency’ .
- For example, the abolition of stamp duty for a ‘more efficient’ broad based land tax can result in commercial property still being exposed to volatility in land valuation processes and increased land tax rates.
- History also proves that governments can ignore ‘tax efficiency’ in reform processes which has seen commercial property penalised (eg. the shift of the Emergency Services Levy from insurance to property in Victoria led to disproportional impacts on shopping centres, despite their relatively low fire risk).

EXECUTIVE SUMMARY



- We support tax reform, including broadening the base of the GST, GST integrity measures, payroll tax reductions and fair property taxes.
- We can assist the Government to analyse tax reform solutions.
- We look forward to working with the Government and other stakeholders to identify an achievable reform path.

ABOUT US



- The **Australian Retailers Association (ARA)** is the peak industry body representing Australia's \$265 billion retail sector which employs over 1.2 million people. The ARA ensures retail success by informing, protecting, advocating, educating and saving money for its 5,000 independent and national retail members throughout Australia.
- The **Shopping Centre Council of Australia (SCCA)** represents Australia's major owners, developers and managers of shopping centres. Our members collectively own or manage in excess of 12.8 million square metres of retail floor space in metropolitan, regional and rural areas across Australia.

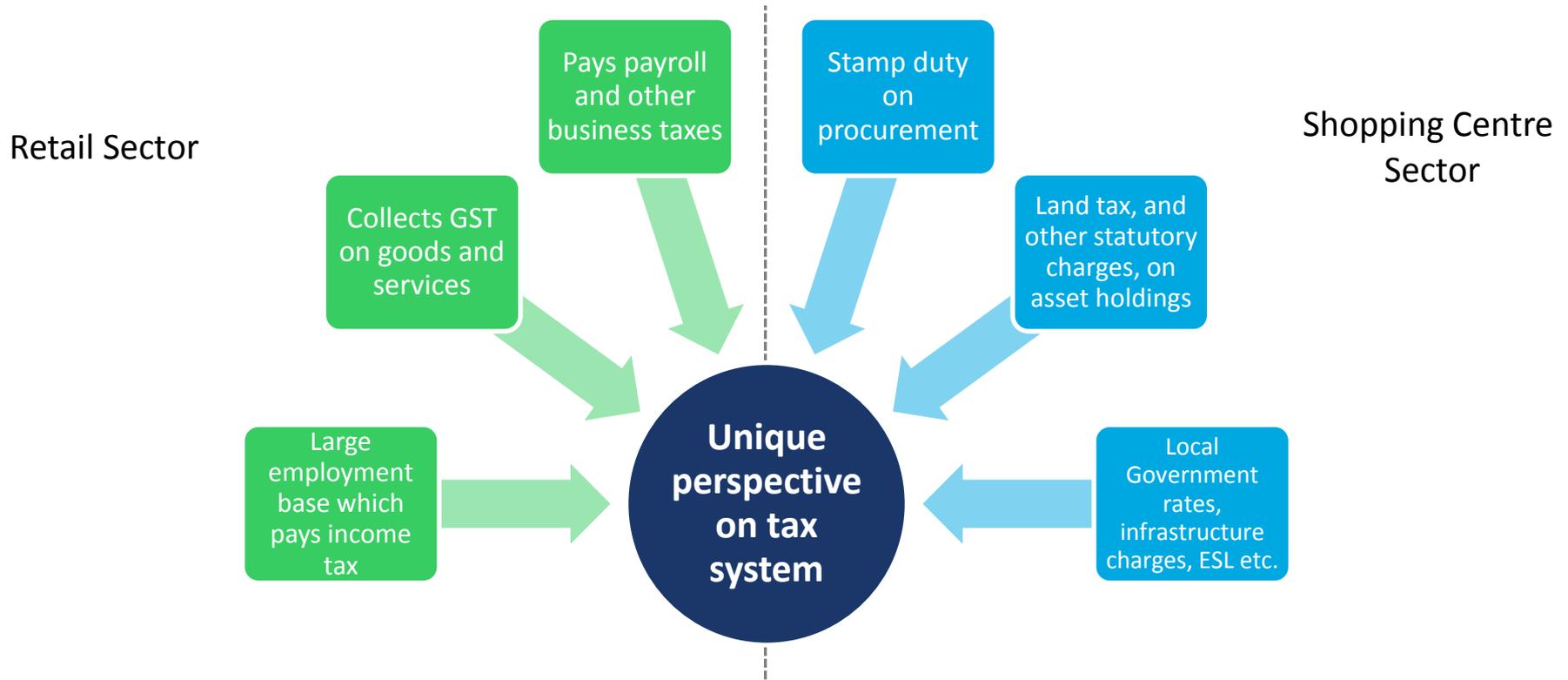
OUR POINT OF DIFFERENCE



- The retail and shopping centre sectors are important, consumer facing sectors which reach every corner of the country.
- We are highly exposed to, for example, volatility in consumer sentiment and confidence, national and international economic forces (eg. employment rate, currency fluctuations), and changes to Government policy settings (e.g. a dollar gained or a dollar lost impacts an individuals capacity to spend).
- Reform is hard and complex and we will not be swept up in over-simplified recommendations about tax reform options or rush to solutions.
- We want to work with the Federal Government, and States and Territories, to cautiously identify the best path forward.

CONTEXT: Retail and shopping centres

The retail and shopping centre sectors are concentrated and interdependent hubs of tax activity.



CONTEXT: Retail and shopping centres

The retail sector is a major arm of the economy which equally underpins and facilitates Australia's economy growth.



Retail Trade (ABS) in the 12 months to March



Correlation between Retail Trade and GDP



Based on the 2015/16 Budget's projection for 2.75% increase in GDP, the Retail Trade could be expected to grow to over \$290 billion over the next 12 months.



Australia's economic growth is pegged to the growth and prosperity of the retail sector (and vice versa).

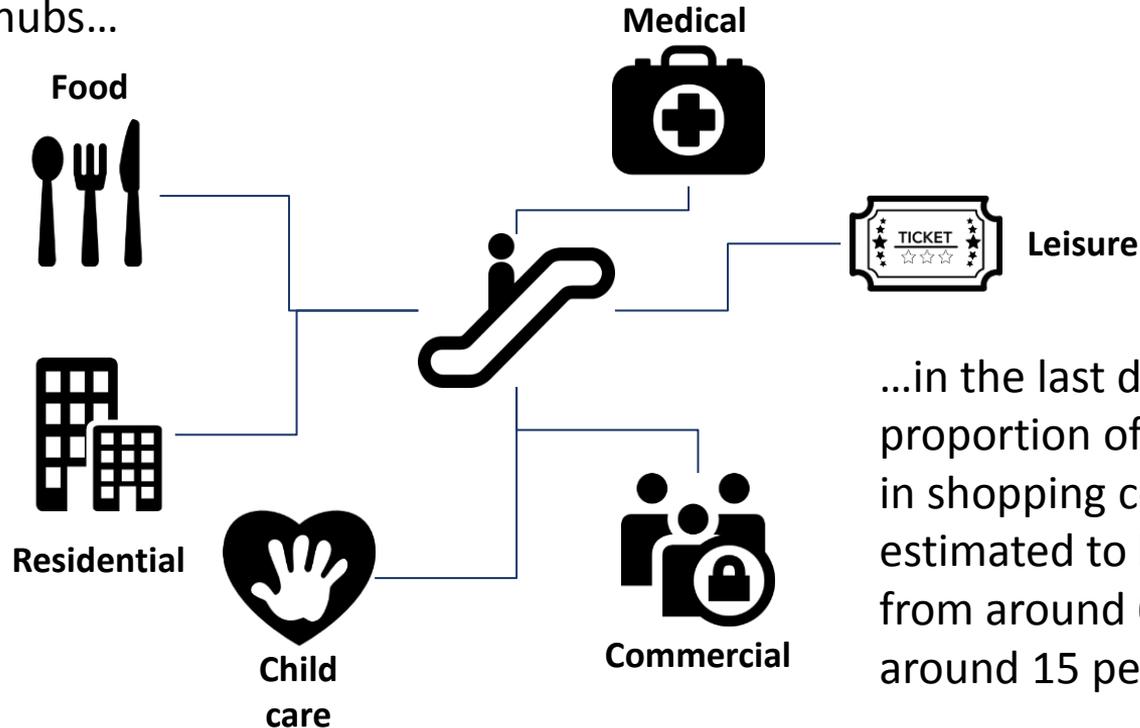
CONTEXT: Retail and shopping centres



- The retail sector employs around 1.2 million people across Australia.
- Retail plays an important role in providing employment opportunities for both new job starters (youth), and mature aged workers.
- Employee costs (ie. wages) are independently set by the Fair Work Commission through the *General Retail Industry Award*.
- According to the Productivity Commission (2014), labour costs are the single largest 'cost of doing business' in the retail sector, accounting for 47% of costs.
- The retail sector is highly unionised (the Shop, Distributive and Allied Employees Association – the SDA – 'is the largest trade union in Australia').

CONTEXT: Retail and shopping centres

Shopping centres are increasingly becoming community hubs...



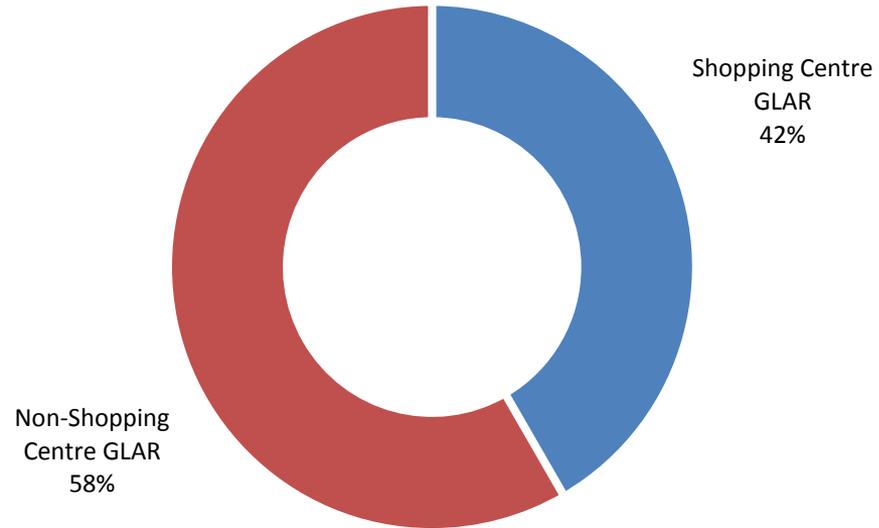
...in the last decade, the proportion of 'non-retail' space in shopping centres is estimated to have increased from around 6 per cent to around 15 per cent.

CONTEXT: Retail and shopping centres

Shopping centres account for around 40 per cent of Gross Lettable Area (Retail) in Australia.

Shopping centres are both highly concentrated, and decentralised, hubs of retail trade.

Proportion of Australian Retail (sq m) Located in Shopping Centres

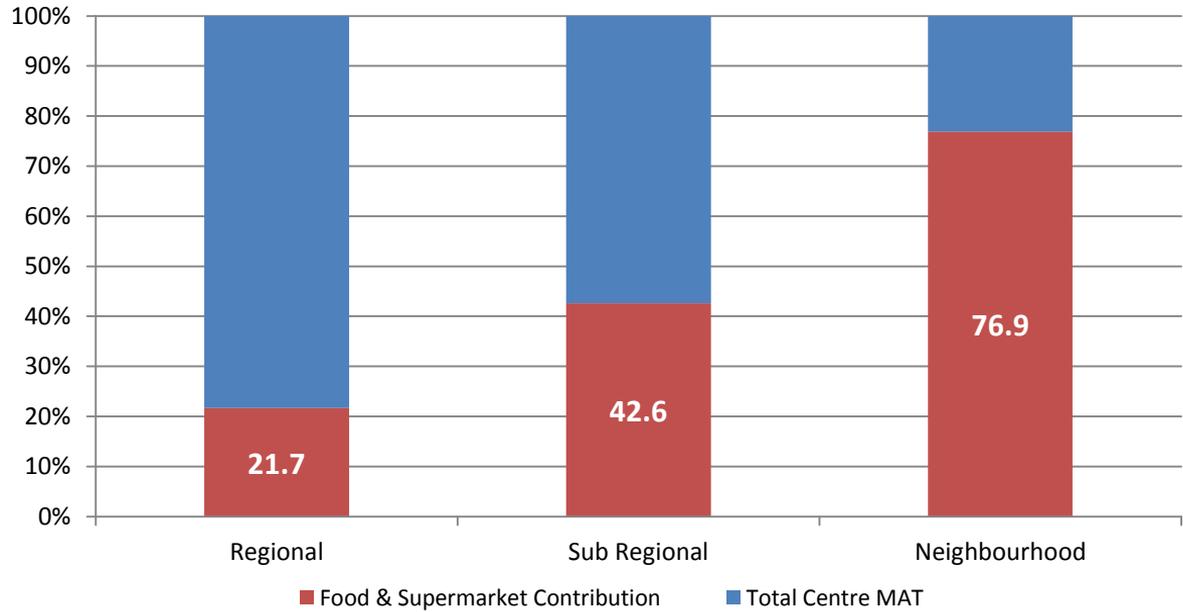


Source: PCA / SCCA Research

CONTEXT: Retail and shopping centres

Some shopping centre types are more highly exposed to spend on 'non-discretionary' items, including food and supermarket sales (generally sales which don't attract GST).

Contribution of Food & Supermarket Sales to Moving Annual Turnover (MAT)



Source: Urbis / SCCA Research

CONTEXT: Retail and shopping centres

Retail activity within Australia's shopping centres contribute approx. \$81.8 billion to Australia's GDP (\$1.58 trillion).

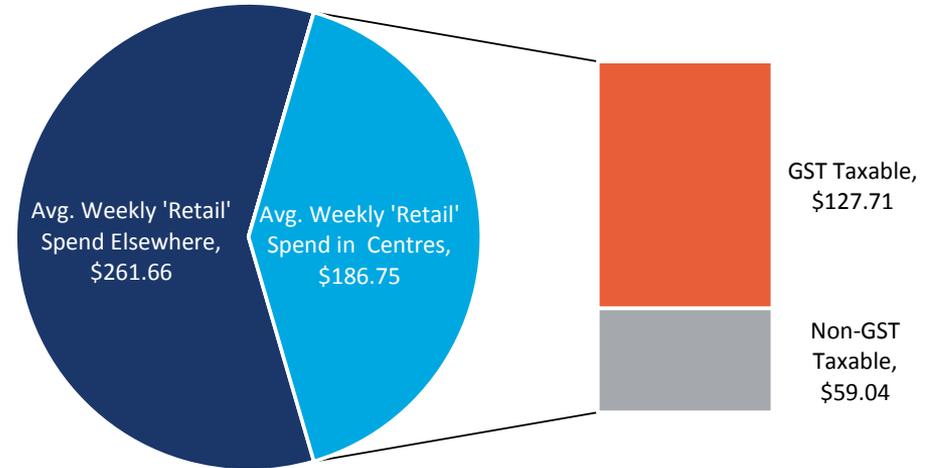
This is equivalent to around 5.2 per cent per annum.

Around \$187 per week per Australian household (based on weekly spend on Goods and Services) is spent in a shopping centre.

This means that in excess of \$1.57 billion is spent each week in shopping centres across Australia.

Around 70 per cent of this spend attracts GST.

Average Weekly 'Retail' Expenditure
Shopping Centre vs. Other Retail Destinations



Source: ABS / SCCA Research

KEY ISSUES: The GST



- The retail sector is at the coal face of reform of the GST.
- The integrity of the application of the GST (ie. the GST's base) should be considered first.
- A modern approach to reform, which defers administrative costs from Government, should be considered in the reform of the Low Value Threshold (LVT) and the Tourist Refund Scheme (TRS).
- Transition arrangements will be important to avoid spending 'shocks' across the retail sector.

KEY ISSUES: Payroll tax



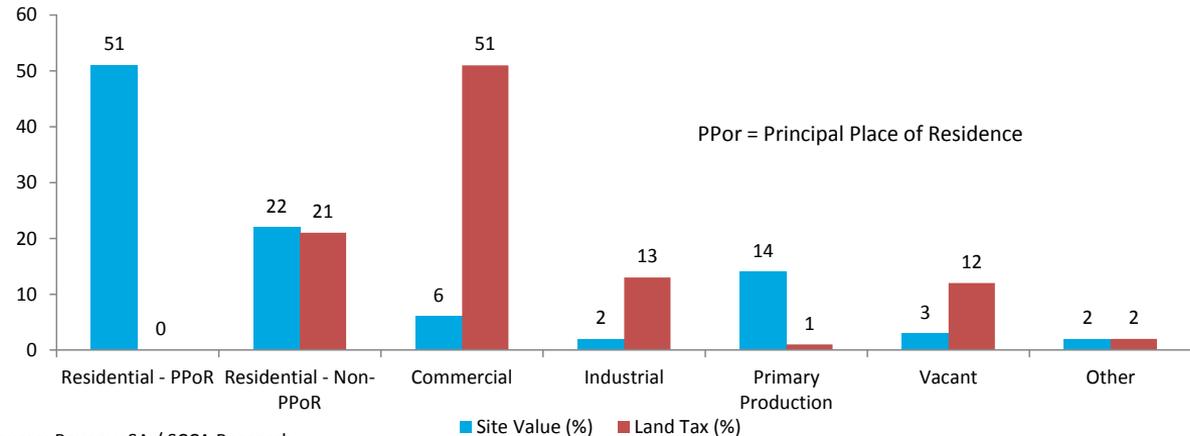
- Attention needs to be given to addressing the considerable payroll tax impost on retail businesses.
- Close to half of all retail business costs are independently fixed (ie. wages) and payroll tax is pegged to liable wages.
- There needs to be acknowledgement of this interdependency.
- The Fair Work Commission is currently reviewing the *General Retail Industry Award* and the Productivity Commission is currently inquiring into the workplace relations framework.

KES ISSUES: Land tax and valuation

Commercial property, including shopping centres, typically pays a disproportionate amount of land tax.

In SA, taxable commercial property valued at \$12.1 billion (6% of total site value), pays \$177.3 million in land tax (51%).

FY14 SA Private Land Tax Composition
Contribution to total by Land Usage



Source: RevenueSA / SCCA Research

KEY ISSUES: Land tax and valuation

The so-called efficiency of land tax can impact investment decisions.

Land tax burden is highly variable across jurisdictions – the starting point for reform varies significantly.

For example: When equalised for relative land values, SA's land tax regime would need to be 22% 'better' to place it on a equal footing to other states.

For example: WA has just increased its land tax rate, which will disproportionately impact commercial property.

Relative Land Tax Impost
Equalised by Relative Land Value



Source: Urbis / SCCA Research

KEY ISSUES: Land tax and valuation



- The exposure of shopping centres to land valuation is critically important.
- They are big assets which transact relatively infrequently; some areas of government also apply a 'capacity to pay' mentality.
- Despite good reform intentions, SA has already ruled out a broad based land tax on the family home.
- WA has recently increased its land tax rates; shopping centres could be hit with the 'double whammy' of rising land values and increasing land tax rates.

KEY ISSUES: Other taxes

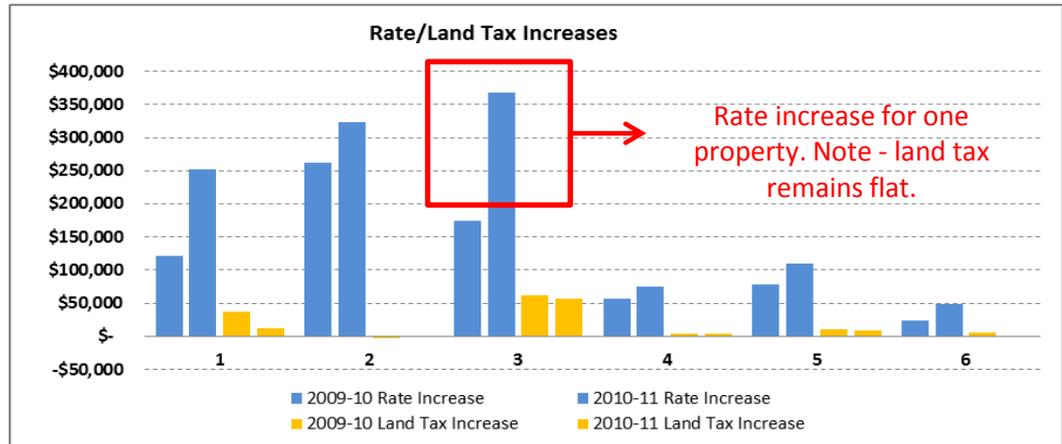
- In addition to ‘headline’ taxes such as land tax and payroll tax, various other taxes are imposed on the retail and shopping centre sectors.
- These can be volatile and ‘tax principles’ too often do not apply, or are too easily disregarded in reform processes.
- These include the likes of infrastructure charges, emergency services levies and car parking levies.
- Shopping centre owners are also participants in the Australian Reinsurance Pool Corporation and have made significant contributions to the pool of reserved funds through levies on their insurance premiums.

KEY ISSUES: Other taxes

Council rates are a major area of concern.

They are essentially 'unregulated', with major volatility and increases imposed at the whim of local governments through their ability to establish rating 'sub-categories' and apply differential rates, and perceptions about 'capacity to pay'.

Our experience is that commercial property is hit particularly hard, in deference to the residential rate base.



RECOMMENDATIONS: The GST



- Changes to the GST will impact the retail sector – this needs to be managed, including through appropriate offsets in other parts of the tax system, including state based taxes.
- Broadening of the GST base to fresh food and other exempt items is a preferred reform option.
- Business which sell services and products into Australia should be targeted to pay GST to strengthen the integrity of the tax base (ie. Netflix Tax).
- Large overseas importers should register for, and collect GST, and the LVT should be removed and the GST collected as per the ANRA *et al* recommendations from the *LVT GST Collection Report April 2013* (prepared by EY).
- The TRS should be outsourced, with travellers meeting the scheme's costs through a levy applied to the GST refund amount.

RECOMMENDATIONS: Payroll tax



- Work with stakeholders to lower payroll tax impacts on employment and productivity with the eventual aim of removing the tax.

RECOMMENDATIONS: Land tax and valuation



- Land tax reform, and related proposals to abolish conveyance duty, should not be over-simplified; land tax is not as efficient as is claimed due, in part, to related volatility in land valuation.
- Land valuation need to be consistent across jurisdictions (eg. unimproved land value, standard objection processes, 'return phase' review of small number of large, high value sites, consistent valuation cycles).
- Shopping centres owners should be able to recover land tax from tenants in all jurisdictions.
- Transitional arrangements will need to be carefully considered to ensure equity in the move to a new land tax system.

RECOMMENDATIONS: Other taxes

- Other taxes which impact the retail and shopping centre sectors should not be decoupled from the headline reform options as they can be highly volatile and be used to plug perceived revenue gaps elsewhere in the system.
- For example, infrastructure charges, car parking levies and emergency services levies should not escape 'tax principles' and should not be used to offset reform in areas of the tax system.
- Council rates need to be consistent, based on consistent land valuation processes and not premised on perceived 'capacity to pay'.

RECOMMENDATIONS: Other issues



- That the Government acknowledge that a large proportion of a retail businesses costs are labour costs which are independently set by the Fair Work Commission; any reform to the tax system to make the retail sector more efficient could be undone by increased (or a failure to moderate) staff costs, penalty rates in particular.
- Recommendations already made in the context of the review of the *Terrorism Insurance Act* and the Australian Reinsurance Pool Corporation should be adopted (eg. explore post funding model, opt out provisions return of 'fees' to participants).

Contact details



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